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# DEVELOPING LOCAL TECHNICAL AND MANAGERIAL CAPABILITIES FOR DEALING WITH TRANSNATIONAL CORPORATIONS IN AFRICA

A Note by the ECA Secretariat

## I. INTRODUCTION

1. One of the basic objectives of the Lagos Plan of Action is to increase industrial, agricultural and food processing in Africa as a means of ensuring economic independence through self-reliance. 1/ However, empirical research in the developing countries indicates that the development process and factors of production are largely affected or controlled by external forces of which the transnational corporations play a dominant role. 2/ In order to change this pattern of ownership and control African countries would have to develop new economic structures based on utilization of domestic financial, natural raw materials, technical and managerial skills and expertise.

2. The purpose of this paper, therefore, is to provide an overview of the major economic sectors in which member States have expressed, in various international fora, their desire to reduce their managerial and technical dependence on external sources, especially the transnational corporations. The paper also attempts to suggest areas in which training of local skills in dealing with transnational corporations seems most appropriate. The areas covered in this paper are by no means exhaustive and are therefore only intended to form the basis for more intensive investigation.

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1/ See The Lagos Plan of Action for the Implementation of the Monrovia Strategy for the Economic Development of Africa, adopted by the Assembly of Heads of State and Government of the Organization of African Unity in Lagos in April 1980 (Document A/S-11/14) of the United Nations General Assembly, 21 August 1980.

2/ In order to understand the activities of TNCs at global level and how such activities affect regional development, the United Nations Centre on Transnational Corporations (CTC) prepared two basic documents (i) Multinational Corporations in World Development (ST/ECA/190) and (ii) Transnational Corporations in World Development: A Re-examination (E/C.10/38). This document was designed to facilitate work of the Group of Eminent Persons appointed by the Secretary-General (Economic and Social Council Resolution 1721(LIII)). It further clarified the broad issues relating to TNCs and made concrete suggestions on national and international policies necessary to deal with these issues. As a further clarification of these issues in as far as they affect the African region, the ECA secretariat prepared a paper on Transnational Corporations in Africa: Some Major Issues (E/CN.14/703), which was presented to the fourteenth session of the Conference of Ministers held in Rabat in 1979. It identified the major issues relating the activities of TNCs in Africa and provided a general framework for further investigation of their possible impacts on the socio-development of the region.

## II. ORGANIZATION OF INTERNAL PRODUCTION AND DISTRIBUTION CAPACITIES

3. The major challenge in the implementation of the programme for self-reliance envisaged under the Lagos Plan of Action implies the planned development of local capacities, domestic resource-based industries, local technologies and financial institutions, as a basis for negotiations with foreign-owned transnational corporations, at national, subregional and regional levels. This should be accompanied by measures to maximize the advantages of their presence in Africa while at the same time minimizing their adverse effects.

4. The organization of internally oriented production and distribution of goods and services is hampered by the lack of information on the role and impact of transnational corporations on the major economic sectors, such as extractive industries (mining and agriculture); banking and financial institutions, including balance of payments; transport and communications; transfer of technology; petro-chemical and energy industries; pharmaceuticals and baby-food or infant feeding formulae. Most countries do not have adequate mechanisms for the collection, analysis and exchange of information on a regular basis, on the activities of transnational corporations in Africa, and the rest of the world, including their equity distribution, subsidiaries, branches, affiliates, and sectors and sub-sectors in which they operate.

5. In developing the local capacities, the intersectoral relationships should be carefully assessed to ensure that the issue is dealt in an integrated manner instead of a piece-meal approach within each sector. Particular attention should be given to the sectors outlined below:

### (a) The food and agricultural processing

6. Food and agricultural production and processing in Africa is declining in relation to population growth. At the same time, food losses and drought situation have resulted in periodic famines in various parts of the continent. Transnational corporations engaged in food and agricultural production normally concentrate on cash crops for export and not for mass domestic consumption. There is a gap in staple food production which must be filled out by indigenous efforts. This calls for proper training of local technical staff in food production, storage and distribution through workshops and seminars.

### (b) Mining, extractive manufacturing industries

7. Throughout the colonial period up to the present day, the organization of the mining, extractive and manufacturing enterprises in most African countries has been controlled by transnational corporations. In a majority of cases, the legislation, mining contracts and leases applying in such cases were signed before Independence. Since the economic conditions have significantly changed over the past two decades, there may be a strong case for reviewing such agreements.

8. Training of expertise in this field would essentially cover at least two broad areas: (i) developing manpower to review and evaluate the mining and industrial agreements, on a continuing basis, with a view to possible renegotiation as required; and (ii) developing a pool of local industrial management expertise to evaluate various industrial proposals and related investment packages from foreign private enterprises including transnational corporations.

(c) Domestic resource mobilization and utilization

9. The problems related to the financing of industrial and agricultural development arise from the fact that most banking and financial institutions in Africa continue to be owned and controlled by transnational corporations. 3/ These problems are aggravated by the lack of local expertise in financial and resource management. Most African countries have, at the very best, a vague idea of their own natural resource potential, compared with transnational corporations which have accumulated vast knowledge in these areas over the years. There is therefore the need to develop local personnel to advise governments on where to obtain resources for implementing the national development plans as well as how to conduct negotiations with transnational corporations and international financial institutions in this field.

(d) Development and utilization of science and technology

10. The industrialization of a country primarily depends upon the ability of its nationals to adapt, assimilate or develop technologies which specifically meet the needs of that country. 4/ For instance, the industrialization of the rural areas, including the modernization of agriculture, cannot be easily achieved through the installation of technologies that are developed in the industrialized countries without further readjustment. Even within the same country, experience shows that technology suitable for one area may not yield similar results in another area.

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3/ See ECA, Joint ECA/CTNC Unit's paper on "Transnational Corporations and the Excessive Outflow of Financial Resources from the Developing African Countries (Working Paper No.3) October 1979.

4/ For an exposition of the various issues on technology see Miguel Wionczek, "Note on Technology through multinational enterprises in Latin America" in Development and Change, (1976); Jack Baranson, "Transfer of Technical Knowledge by International Corporations to Developing Economies" in American Economic Review, May 1966; UNIDO, Technological Co-operation for Self-Reliance: and Implications for developing countries, by K.D.N. Singh (UNIDO Working Paper) 1977; UNCTAD, Major issues arising from the transfer of technology to developing countries (Sales No. E.75.II.D.2); F. Dessemontet, "Transfer of technology under UNCTAD and EEC draft modifications: An European view on choice of law in licencing", in Journal of International Law and Economics, Vol.12, No.1, 1977; World Intellectual Property Organization, Licencing Guide for Developing Countries: A Guide on the Legal Aspects of the Negotiation and Preparation of Industrial Property Licences and Technology Transfer Agreements Appropriate to the Needs of Developing Countries, WIPO Publication No.620 (E), Geneva, 1977; M. Naim, Ideology, dependence and the control of multinational corporations: A study of the Venezuelan policy on foreign investment and technology transfer (Working Paper of the Alfred P. Sloan School of Management), Cambridge, Massachusetts Institute of Technology, April, 1977; C.A. Michael, "The International Transfer of Technology and the Multinational Enterprise" in Development and Change, (1976); UNCTAD, Handbook on the acquisition of technology by developing Countries, United Nations, New York, (UNCTAD/TT/AS/S), 1978.

## III. DEVELOPING LOCAL TECHNICAL AND MANAGERIAL SKILLS

11. One of the major concerns relating to the development of local skills and capabilities is to reduce Africa's dependence on transnational corporations for various expertise. There is the need for training of individuals possessing the right calibre, motivation and dedication, through national and international courses and seminars, in specific fields such as business policy and management by transnational corporations, methods of financial and corporate controls, technology research and application and negotiation for mining and prospecting rights.

12. In order to develop technological management capabilities, there should be a conscious training programme for indigenous scientists, engineers, maintenance mechanics, machinists, and plant operators who should begin to gradually assume responsibilities in the public-owned enterprises needing resource personnel. This should be accompanied by the training of African experts in public enterprises as well as in locally-owned business operations in the assessment and evaluation of technology especially that acquired from transnational corporations which comes in "packages" or "boxes". Such training should include information on the available sources of technology, types and choice of technology, alternate forms of technology, its cost as well as the "depackaging" of technology. The training should also include research in the development of local technologies.

13. In addition to formal training, African countries should jointly or individually negotiate for in-service training in selected business houses operated by transnational corporations both in Africa and elsewhere in the world in order to acquire new and modern skills in business and plant operation and management. The African countries should also organize the exchange of African technical and managerial personnel for agreed specified period to be assigned from one African country to another as part of technical co-operation among developing countries (TCDC) so as to attain real collective self-reliance and economic independence from transnational corporations.

14. Other areas in which local skills and expertise are urgently required include (i) fiscal and financial aspects including taxation, exchange control, capital and profits repatriation, intra-firm accounting and transfer pricing; (ii) ownership and control, including equity-sharing, joint ventures, management contracts, service agreements and capitalization, factory location and mineral exploration and prospecting rights; (iii) domestic participation in business ventures; and (iv) restrictive business practices and the legal implications of the activities of transnational corporations.

## IV. NATIONAL INSTITUTIONS FOR DEALING WITH TRANSNATIONAL CORPORATIONS

15. One of the key factors in developing local capabilities for dealing with transnational corporations is to fully recognize that they are dynamic in character, having the capability to alter their structure and operations according to changing economic or political conditions. Consequently, there is a great need to monitor and evaluate their activities in the African countries on a continuing basis.

16. A factor of considerable significance that requires stressing is that transnational corporations often thrive upon the ignorance of the governments on matters such as technology, natural resources, investment financing and the world financial, monetary and market conditions. This situation can partly be explained by the absence, in most African countries, of national machinery at government level, to study, monitor and evaluate, on a continuing basis, the role and impact of the activities of transnational corporations on the development process. 5/ As a result, governments do not often have full background information for taking decisions, or for conducting negotiations or for devising policies that would effectively deal with foreign investors especially transnational corporations.

17. A consensus is beginning to emerge on the need for the establishment of national units to deal with transnational corporations. 6/ The national units should be staffed with individuals of high calibre and devotion who would advise their governments on the very complex nature of the activities of transnational corporations and the resulting impacts on national development efforts. Its functions should take into account the following requirements:

(a) The National Unit should be located in the Central Planning Office or any relevant ministry, to deal with matters related to foreign investment including transnational corporations. It should be staffed with an interdisciplinary team composed of development economists, financial analysts, industrial and agricultural economists, engineers, sociologists and environmentalists, and corporate legal experts to undertake among other things, the studies referred to above and to advise the respective governments on the appropriate policy instruments to be adopted for the regulation of transnational corporations.

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5/ See ECA, Operational Guidelines for the Establishment of National Units for Co-ordinating Government Policies Relating to Transnational Corporations in Africa (Document No.E/CN.14/CTNC/4/Rev.1) 19 September 1979.

6/ See ECA Conference of Ministers' resolution 326(XIII) of 1 March 1977 and 347(XIV) of 27 March 1979.

(b) The main function of the National Unit would be to co-ordinate the government policy on transnational corporations to be adopted in each ministry or government department and on foreign investments. This role should also include decisions on technology to be developed or transferred to the various economic sectors, taking into account of the need to increase domestic output and employment.

(c) The National Unit would act as the focal point of contact with the United Nations agencies, other international organizations and African development and research institutions dealing with transnational corporation issues of interest to the country concerned. It should also be involved, in a substantive manner, in organizing and conducting negotiations with transnational corporations, especially in drawing up the "negotiating mandate" taking into account the national development objectives and priorities.

## V. CONCLUSIONS

18. The economic prosperity of the African countries in the 1980s and beyond would depend, to a considerable extent, on their ability to accurately interpret the legal, social, economic and political implications of the international economic situations, especially the activities of transnational corporations. The truth of the matter is that presently, industrial and manufacturing industries, including trade, banking, infrastructure and the service industries are still largely in the hands of foreign investors. Future development would thus be dependent upon the ability of these countries to restructure the domestic production and distribution through a definite shift in the patterns of ownership and distribution of the major means of production bearing in mind the need to eliminate food shortages, poverty, disease and malnutrition in Africa.

19. The Lagos Plan of Action recognizes that collective self-reliance cannot be achieved in a vacuum and neither can technology be acquired or accumulated if there is no local expertise to receive it. Therefore, in order to change the ownership and control patterns, the development of local technical and managerial capabilities is an integral part of the development strategy. Any measures towards self-reliance in managerial skills should include intensive training programmes in the techniques of running business by transnational corporations. At the same time, the exchange of information through technical co-operation especially among developing African countries on the activities of transnational corporations through workshops should constitute a vital and integral part of the development policies and strategies of these countries.